

AGENDA ITEM 9E.

COLLEGE ILLINOIS!® PREPAID TUITION PROGRAM INVESTMENT POLICY ASSET ALLOCATION AND ASSET LIABILITY STUDY

Submitted for: Action

Summary: As stated in our Statement of Investment Policy, we review the asset allocation targets annually and conduct, along with our investment consultant, a formal asset liability modeling study at least every three years. Key inputs to determine the optimal investment approach are *our return needs, our risk tolerance, and our liquidity budget.*

For FY27 an in-depth investment evaluation and analysis was performed by investment staff and Callan (our investment consultant) as customary. Along with this memorandum we are providing separately Callan's Asset Allocation and Liability Study presentation, which provides the framework for this review and its recommendation.

Historically, we have been lowering the risk of the portfolio over the past decade. In June 2021, we updated the asset allocation to have one set of asset class policy targets versus having interim and long-term targets. Using a risk-return framework, we marginally shifted our policy targets to maximize our returns with a prudent risk posture. In April 2024, we transitioned most of the trust fund to a liability driven strategy which was approved by the Investment Committee and Commission.

Of note, based on the actuarial soundness report as of June 30, 2025, the CI program expects significant cash outflows (page 3 of Callan's presentation) over the next three years (\$72 million for FY27, \$59 million for FY28 and \$47 million for FY29). The total expected cash outflows over the next three years amounts to approximately 49% of the trust fund current market value. The expected yearly cash outflow for FY27 amounts to approximately 20% of the investment portfolio. The materiality of the cash outflows over the coming years is significant, therefore maintaining a liquid and conservative portfolio which avoids drawdown risk is highly desirable.

CURRENT ASSET ALLOCATION POLICY TARGETS

Asset Class	Current Asset Class Policy Targets	Rebalancing Ranges
US Equity	3%	0-5%
Non-US Equity	0%	
Private Equity	0%	
EQUITY	3%	
Fixed Income	2%	0-25%
HighYield	1%	0-7%
FIXED INCOME	3%	
REIT	0%	0-7%
Real Estate	11%	
Infrastructure	3%	
REAL ASSETS	14%	
Absolute Return	0%	
CASH	80%	
Totals	100%	

In the table above you can see the current asset allocation policy targets and their respective rebalancing ranges, which were approved at the June 26, 2025 Commission meeting.

With the few updates in assumptions, the updated asset liability study considers the new cash inflow, cash outflows, Callan’s 2026 capital markets assumptions (page 4 of Callan’s presentation) and the range of potential asset allocation mixes (page 9 of Callan’s presentation). Further, we assume that the program will remain closed to new enrollments. Using such assumptions, the current asset allocation has an expected rate of return of 4.3% with a standard deviation of 3.0%. The Potential New Policy we are considering for the asset allocation is identical to the Current ISAC Policy (shown in page 9 of Callan’s presentation) and so is the risk/return profile. Please note, by increasing equity allocation from our current target of 3% to 40% (as can be seen in page 9 of Callan’s presentation), we are able to increase the projected rate of return (from 4.3% to 5.9%), but in pursuit of that potential extra gain our risk profile changes significantly from 3.0% to 8.1%. Both investment staff and Callan believe that the potential additional expected rate of return that we could earn is not worth the extra risk at this point in the life of the fund. When comparing the current policy risk mix (3% Equity) to the highest risk mix (40% Equity) shown in page of the 9 of the Callan presentation, there are a couple of key items to keep in mind:

- As you can see in page 11 of the Callan’s presentation, the chance of having negative returns in FY27 increases considerably from 7.3% to 22.8% as the percentage of equity increases.

- As you can see in page 12 of the Callan presentation, the probability of being fully funded at the end of FY27 decreases as the percentage of equity increases.

While considering the lower risk mix (Current ISAC Policy) in page 9 of the Callan presentation, we were very pleased to see that such conservative mix is projected to exceed the FY27 actuarial assumption of 4.143% with a very low level of equity exposure and therefore risk, as the U.S. Treasury laddered portfolio has already locked in a very attractive yield.

The College Illinois! fund assumed net investment return and discount rates are reduced by 0.286% in yearly increments from 4.143% (for FY27) to the ultimate rate of 3.00% (for FY31 and thereafter), as can be seen below.

Fiscal Year Ending 6/30	Assumed Net Rate of Return
2025	
2026	4.429%
2027	4.143%
2028	3.857%
2029	3.571%
2030	3.286%
2031	3.000%
2032	3.000%
2033	3.000%

Given the assumed discount rates shown above, we believe that maintaining the U.S. Treasury laddered portfolio strategy will be highly beneficial to the financial condition of the program, as we should easily meet the programs projected obligations and modestly improve the funded ratio overtime as long as tuition inflation remains within our projections.

We want to highlight that the existing U.S. Treasury laddered portfolio could potentially at times show a temporary reduced or negative rate of return in a rising interest rate environment. But we are not too concerned about this potential temporary headwind as we plan to hold those securities until maturity, by which time we would earn the yields that we had locked in at the time of the purchases.

Please note, at this point in time approximately 17% of the trust fund portfolio is tied up in illiquid investments and we plan to continue working with the managers to maximize the value of these assets. Once the illiquid investments are monetized in the near future, we will likely continue to deploy such proceeds to the U.S. Treasury

laddered portfolio being implemented as long as interest rates remain relative attractive.

Investment staff is very pleased to communicate that the trust fund is very well insulated against any potential writedowns going forward given the strong surplus we have been able to build, which puts the program on a strong path to success as long as we continue to manage risks prudently.

To simplify the analysis and evaluation of the various options or asset mixes, we recommend taking a step back to reflect on: what we would like to achieve?

The key is to generate a rate of return that exceeds our actuarial rate of return assumptions with the lowest risk profile possible. Therefore, investment staff along with the Callan team narrowed down our options to one asset mix based on the fund expected returns, risk profile and liquidity needs, which can be seen in page 9 of the Callan’s presentation under Current ISAC Policy and in the table below. Importantly, in this final asset mix selected, the asset allocation remains highly conservative which should be a priority going forward for the reasons noted above. Additionally, we are recommending maintaining all current rebalancing ranges for all asset classes unchanged. Today we are recommending exactly the same asset allocation as the one approved last year on June 26, 2025 with no changes at all.

Asset Allocation	FY26 Policy Targets	Potential New FY27 Policy Targets
U.S. Equity	3.0%	3.0%
Non-U.S. Equity	0.0%	0.0%
Fixed Income	2.0%	2.0%
High Yield	1.0%	1.0%
REIT	0.0%	0.0%
Absolute Return	0.0%	0.0%
Real Estate	11.0%	11.0%
Infrastructure	3.0%	3.0%
Private Equity	0.0%	0.0%
Cash	80.0%	80.0%
Expected Return (1-year)	4.9%	4.3%
Risk	3.0%	3.0%

Investment staff shared this proposal via email with the Investment Advisory Panel members on May 5, 2026 and with the Investment Committee members on May 5, 2026. The members from both the Investment Advisory Panel and Investment Committee have expressed support for this asset allocation recommendation proposal. Investment staff also reviewed in detail the proposal with the Executive Director and the Chair of the Commission has also seen the proposal. Both have expressed support for this proposal.

After choosing a desirable asset mix that reflects the Commission’s risk tolerance and other considerations, the policy benchmark for the investment portfolio would need to be updated to reflect the new policy targets for the asset classes and its respective indices shown below.

Asset Class	Index
US Equity	S&P 500
Non-US Equity	MSCI ACWI ex US
Private Equity	S&P 500
Fixed Income	Bloomberg U.S. Aggregate
High Yield	ICE BofA US High Yield
REIT	MSCI US REIT
Absolute Return	90-day T Bills + 4%
Real Estate	NREIF ODCE
Infrastructure	90-day T Bills
Cash	GRS Actuarial Rate of Return Assumption

Action requested: For the Investment Committee to recommend and the Commission to approve the asset mix that reflects the Investment Committee and Commission’s risk tolerance.